

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management Discussion and Analysis (MD&A) is intended to be an easily readable analysis of the City of Burien's financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the Transmittal Letter that begins on page 1-1 and with the financial statements and notes to the financial statements that follow this analysis.

FINANCIAL HIGHLIGHTS

In each of the last six years, since the City began reporting in accordance with the GASB 34 model, total net assets have increased by an average of more than \$6.5 million per year. The assets of the City of Burien exceeded its liabilities at the close of the most recent fiscal year by \$107.7 million. Of this amount, \$90.4 is invested in capital assets net of related long term debt and the remaining \$17.3 million is available for debt service, capital projects and to meet the government's ongoing activities and obligations.

The City of Burien's total net assets increased by \$12.8 million in 2008. Government activities net assets increased by \$13.6 million while Business-type activities decreased \$800 thousand, due in part to a transfer of Surface Water Management funds to the Transportation CIP fund for surface water related costs associated with the 1st Ave South project.

As of year end December 31, 2008 the City of Burien's governmental funds reported combining ending fund balance of \$15.6 million, a decrease of \$3.5 million in comparison with the prior year. This decrease is primarily due to expenditures associated with the 1st Ave. So. and the Town Square/City Hall development projects.

At the end of the current fiscal year, unreserved fund balance for the general fund was \$3,768,613, or 22.8% of total current year general fund revenues. This is up significantly from the \$2,168,985 in unreserved General Fund, fund balance at the end of 2007. This ending fund balance exceeds the financial policy required amount of 10% of ongoing revenues, by approximately \$2 million, which is available to fund future capital programs and to ride out the current economic downturn.

The City of Burien's total long term debt increased \$654 thousand, a net decrease in governmental activities of \$140 thousand and a net increase of \$794 thousand in business-type activities attributed to draw downs on the Ambaum Pond project net of current year debt service payments.

REPORT LAYOUT

The Government-wide financial statements are designed to provide readers with a broad overview of the City of Burien's finances in a manner similar to a private sector business. Besides the Management's Discussion and Analysis (MD&A), the report consists of government-wide statements, fund financial statements, notes to the financial statements, combining schedules of non-major funds and supplementary information. The first several statements are highly condensed and present a government-wide view of the City's finances. Within this view, all City operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services such as public safety, transportation, economic development, culture and recreation, community development and general government administration. Business-type activities consist of a surface water management system. The government-wide statements include the Statement of Net Assets

and the Statement of Activities. The report also provides for significant major funds financial statements which provide more detail than the government-wide statements. Where combined information has been presented, later statements will provide combining information. Budgetary information is provided for operating governmental funds. The notes to the financial statements are an integral part of this report. Finally, there is supplemental information provided related to the financial activity of the City.

The City's Comprehensive Annual Financial Report is prepared in accordance with Governmental Accounting Standards Board (GASB) Statements 34, 36, 37, 38, 40 and 44.

STATEMENT OF NET ASSETS

The focus of the Statement of Net Assets is to present all of the City of Burien's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Burien is improving or deteriorating.

STATEMENT OF ACTIVITIES

The focus of the Statement of Activities is to present the major program costs and match major resources with each. To the extent a program's cost is not recovered by grants and direct charges, it is paid from general taxes and other resources. This Statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and or subsidized by general revenues.

Following the government-wide statements is a section containing fund financial statements. The City's major funds are presented in their own columns and the remaining funds are combined into a column titled "Other Governmental Funds." For each major fund, a Budgetary Comparison Statement is presented. Readers who wish to obtain information on non-major funds can find it in the Combining Schedules of Non-major Funds and or the Supplemental Information-Budgetary Comparison Schedules sections of this report. Finally, completing the document is a series of other financial and statistical schedules, and the reports by the independent auditors, as required by statute. The MD&A is intended to explain the significant changes in financial position and differences in operations between the current and prior year.

CITY AS A WHOLE

GOVERNMENT-WIDE FINANCIAL STATEMENTS

An analysis of net assets over time may serve as a useful indicator of a government's financial position. In the case of the City of Burien, assets exceeded liabilities by \$107.7 million at the close of the fiscal year.

During fiscal year 2008 the major change to the balance of net assets is the increase in capital assets, net of related debt, which is comprised of a large increase in Construction Work in Progress (CWIP) predominantly on the 1st Ave South, Transportation Capital Improvement project and the Town Square Development projects. A condensed version of the Statement of Net Assets at December 31, 2008 is presented on the following page.

City of Burien's Net Assets at Year-End

	<u>Governmental Activities</u>		<u>Business - Type Activities</u>		<u>Total</u>	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 23,587,165	\$ 23,592,849	\$ 418,392	\$ 1,105,936	\$ 24,005,557	\$ 24,698,785
Capital assets, net of accumulated depreciation	101,105,468	84,843,618	6,945,888	6,032,337	108,051,356	90,875,955
Total assets	124,692,633	108,436,467	7,364,280	7,138,273	132,056,913	115,574,740
Long-term liabilities	16,335,095	16,474,589	1,490,005	696,150	17,825,100	17,170,739
Other liabilities	6,261,797	3,511,655	270,700	43,728	6,532,497	3,555,383
Total liabilities	\$ 22,596,892	\$ 19,986,244	\$ 1,760,705	\$ 739,878	\$ 24,357,597	\$ 20,726,122
Net Assets:						
Invested in capital assets, net of related debt	84,983,988	68,572,792	5,455,883	5,336,187	90,439,871	73,908,979
Restricted	13,423,818	17,617,873	-	-	13,423,818	17,617,873
Unrestricted	3,687,935	2,259,558	147,692	1,062,208	3,835,627	3,321,766
Total Net assets	\$ 102,095,741	\$ 88,450,223	5,603,575	6,398,395	107,699,316	\$ 94,848,618

Governmental Activities

By far the largest change was in capital assets, which increased \$16.4 million. This is attributed to construction work in progress (CWIP) associated with the 1st Ave. So. project and the Town Square/City Hall development projects.

Business-type Activities

Storm Water Management: During 2008 a large detention facility continued in the construction phase with these assets recorded in the CWIP category. This project should be closed to infrastructure in early 2009.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2008:

The Activities Statement shows a net increase in the City of Burien's net assets of \$12.8 million. A summary version of the Statement of Activities follows.

Summary of Revenues

	<u>Governmental Activities</u>		<u>Business - Type Activities</u>		<u>Total</u>	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 3,599,587	\$ 2,762,480	\$ 1,729,442	\$ 1,631,203	\$ 5,329,029	\$ 4,393,683
Operating grants & contributions	4,356,547	2,771,773	7,977	-	4,364,524	2,771,773
Capital grants & contributions	10,186,732	11,821,699	95,000	-	10,281,732	11,821,699
General Revenues:						
Property taxes	5,296,290	5,127,319	-	-	5,296,290	5,127,319
Sales Taxes	5,652,874	5,789,088	-	-	5,652,874	5,789,088
Other Taxes	4,336,353	5,032,062	-	-	4,336,353	5,032,062
Investment Interest	381,608	802,789	31,640	59,905	413,248	862,694
Total Revenues	\$ 33,809,991	\$ 34,107,210	\$ 1,864,059	\$ 1,691,108	\$ 35,674,050	\$ 35,798,318

Summary of Expenses

	Governmental Activities		Business - Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Expenses						
General Government	\$ 4,537,442	\$ 3,751,028	\$ -	\$ -	\$ 4,537,442	\$ 3,751,028
Public Safety	7,457,624	7,278,229	-	-	7,457,624	7,278,229
Physical Environment	405,561	292,817	-	-	405,561	292,817
Transportation	4,670,274	4,384,302	-	-	4,670,274	4,384,302
Economic Environment	1,551,828	1,336,188	-	-	1,551,828	1,336,188
Health and Human Services	7,274	7,333	-	-	7,274	7,333
Culture and Recreation	2,590,110	2,488,481	-	-	2,590,110	2,488,481
Interest on Long-term Obligations	502,459	500,609	-	-	502,459	500,609
Storm Drainage	-	-	1,100,780	1,048,450	1,100,780	1,048,450
Total Expenses	\$ 21,722,572	\$ 20,038,987	\$ 1,100,780	\$ 1,048,450	\$ 22,823,352	\$ 21,087,437
Increase in net assets before transfers	12,087,419	14,068,223	763,279	642,658	12,850,698	14,710,881
Loss on disposal of capital assets	-	(431,792)	-	(7,439)	-	(439,231)
Transfers	1,558,099	(1,014,683)	(1,558,099)	1,014,683	-	-
Increase in net assets	13,645,518	12,621,748	(794,820)	1,649,902	12,850,698	14,271,650
Net assets - beginning	88,450,223	75,828,475	6,398,395	4,748,493	94,848,618	80,576,968
Net assets - ending	\$ 102,095,741	\$ 88,450,223	\$ 5,603,575	\$ 6,398,395	\$ 107,699,316	\$ 94,848,618

**GOVERNMENTAL AND PROPRIETARY ACTIVITIES
FOR FISCAL YEAR ENDING DECEMBER 31, 2008**

Governmental Activities

With only a couple of exceptions, governmental program revenues and expenses remain similar to the prior year. The largest revenue difference is an increase of \$900 thousand in charges for services with decreases of \$700 and \$400 thousand in tax and interest revenue respectively. Revenues exceeded expenditures for the year and a large portion of the increase in net assets is the result of capital projects which have added significantly to the net assets of the city.

The fund balance of the Town Square Capital Project Fund decreased significantly during the year just ended as a result of the increased construction for all of the projects associated with the town square development. In the Park and General Government Capital Projects fund the decrease in fund balance is due to several projects beginning the construction phase of the projects for which funds had previously been accumulated. A small negative fund balance exists in the Debt Service Fund at year end but this is a timing issue on a mitigation payment to be received upon issuance of an occupancy permit on a portion of the town square development. This payment is expected to be received in 2009.

Business-type Activities

Storm Water Fund revenues are increasing slightly in the last few years as a policy was enacted in 2008 to increase surface water management fees by an inflationary factor each year. Operating expenses have remained relatively constant for the last few years.

BUDGETARY HIGHLIGHTS

The City Council approved one amendment to the 2008 adopted budget. This amendment provides for adjusting beginning fund balances to the ending 2007 actual fund balance amounts, provided funding for several projects approved subsequent to the approval of the 2008 budget and closed the Cumulative Reserve Fund into the General fund.

General Fund revenues were $\frac{3}{4}$ of 1% less than budgeted revenue and this was predominantly due to gambling taxes being much less than anticipated. Expenditures were almost 4% less than the amendment budget with most of this savings coming from general governmental and police services.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2008 the City had invested \$108 million in capital assets as reflected in the following table, which represents a net increase (additions, deductions and depreciation) of \$17.2 million. Additional detailed information on Capital Assets is available in the Notes to the Financial Statements (Note 7.)

CAPITAL ASSETS AT YEAR-END (NET OF DEPRECIATION)

	Governmental Activities		Business - Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 22,771,670	\$ 22,771,670	\$ 1,076,060	\$ 1,076,060	\$ 23,847,730	\$ 23,847,730
Buildings	238,460	275,165	-	-	238,460	275,165
Improvements other than buildings	1,889,211	1,969,522	-	-	1,889,211	1,969,522
Machinery and equipment	159,490	288,628	7,315	5,335	166,805	293,963
Infrastructure	29,009,495	31,438,267	2,733,772	2,835,933	31,743,267	34,274,200
Construction work in progress	47,037,142	28,100,366	3,128,741	2,115,009	50,165,883	30,215,375
Total	\$ 101,105,468	\$ 84,843,618	\$ 6,945,888	\$ 6,032,337	\$ 108,051,356	\$ 90,875,955

The following table reconciles the change in capital assets. Included within additions are construction work in progress (CWIP) balances. For governmental activities the CWIP amount is \$47 million which is comprised of the town square, parks and street improvement, projects still under construction. This large increase, \$18.9 million in governmental activities CWIP is predominantly due to the Town Square/City Hall development project and the continuation of the 1st Ave. South project. For business-type activities the CWIP increase of \$1 million, is predominately due to the continuing construction on a large detention facility.

CHANGE IN CAPITAL ASSETS

	Governmental Activities		Business - Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Changes in Capital Assets						
Land	\$ -	\$ (1,266,321)	\$ -	\$ -	\$ -	\$ (1,266,321)
Buildings	(36,705)	(1,485,393)	-	-	(36,705)	(1,485,393)
Improvements other than buildings	(80,311)	(90,242)	-	(9,919)	(80,311)	(100,161)
Machinery and equipment	(129,138)	(24,312)	1,980	(7,178)	(127,158)	(31,490)
Infrastructure	(2,428,772)	(1,642,837)	(102,161)	962,090	(2,530,933)	(680,747)
Construction in progress	18,936,776	15,756,843	1,013,732	1,267,761	19,950,508	17,024,604
Total	\$ 16,261,850	\$ 11,247,738	\$ 913,551	\$ 2,212,754	\$ 17,175,401	\$ 13,460,492

OUTSTANDING DEBT

As of year-end 2008 the City had \$17.4 million in debt outstanding compared to \$16.8 million last year. This \$.6 million increase is the result of draw downs on two Public Works Trust Fund loans, less annual debt principal payments made during the year on all outstanding long-term debt.

OUTSTANDING DEBT AT YEAR END

	Governmental Activities		Business - Type Activities		Total	
	2008	2007	2008	2007	2008	2007
General Obligation Bonds	\$ 11,615,000	\$ 12,090,000	\$ -	\$ -	\$ 11,615,000	\$ 12,090,000
Special Assessment debt with government commitment (Public Works Trust Fund Loan)	1,697,712	1,491,666	-	-	1,697,712	1,491,666
Public Works Trust Fund Loan	2,638,129	2,508,483	1,490,005	696,150	4,128,134	3,204,633
Total	15,950,841	16,090,149	1,490,005	696,150	17,440,846	16,786,299

The increase in outstanding debt is the result of draw downs on two Public Works Trust Fund loans from the State of Washington. The two loans are for \$2 million, in the governmental activities funds and \$1.547 million, in the business-type activities statement, for the 1st Ave. South and Ambaum Pond projects, respectively. At year end all of these available loan proceeds have been recognized. For more detailed information on the City's debt and amortization terms refer to the Notes to the Financial Statements (Note 9.)

ECONOMIC FACTORS

While property taxes are important to the City, they only represent 15.72% of total governmental resources. Sales taxes, and Business and Occupation/utility taxes, comprise approximately 16.7% and 9.5% of these resources respectively and inter-governmental revenues from state shared revenues and grants make up 43.0% of total resources. With the economy's recent negative trend, we are closely monitoring those revenue sources which appear to be most impacted by recent events. The City continues to monitor all of its resources and will determine the need for program adjustment or fee increases as necessary.

NEXT YEAR'S BUDGETS AND RATES

Beginning in 2009 the City has adopted a biennial budget and has projected a 0.5% increase in resources for 2009 and a 2% increase in 2010, while expenditures are expected to increase 5% in 2009 and 3% the following year. The single largest increase in revenues is projected to be from utility taxes, which appear to be unaffected by the current economy. Surface water management revenue is also expected to increase each year as a policy was recently adopted providing for an automatic annual adjustment to inflation.

FINANCIAL CONTACT

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the City's Finance Director at 400 SW 152nd St., Suite 300, Burien, Washington 98166.



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